

F. EQUIPMENT AND REAL PROPERTY MANAGEMENT

Compliance Requirements

Equipment Management

Title to equipment acquired by a non-Federal entity with Federal awards vests with the non-Federal entity. Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of \$5000 or more per unit. However, consistent with a non-Federal entity's policy, lower limits may be established.

A State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with State laws and procedures. Subrecipients of States who are local governments or Indian tribes shall use State laws and procedures for equipment acquired under a subgrant from a State.

Local governments and Indian tribes shall follow the A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency. Institutions of higher education, hospitals, and other non-profit organizations shall follow the provisions of OMB Circular A-110. Basically, the A-102 Common Rule and OMB Circular A-110 require that equipment be used in the program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained. When equipment with a current per unit fair market value of \$5000 or more is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to a proportionate (percent of Federal participation in the cost of the original project) amount of the current fair market value. Proper sales procedures shall be used that provide for competition to the extent practicable and result in the highest possible return.

The requirements for equipment are contained in the A-102 Common Rule (§____.32), OMB Circular A-110 (§____.34), Federal awarding agency program regulations, and the terms and conditions of the award.

Real Property Management

Title to real property acquired by non-Federal entities with Federal awards vests with the non-Federal entity. Real property shall be used for the originally authorized purpose as long as needed for that purpose. For non-Federal entities covered by OMB Circular A-110 and with written approval from the Federal awarding agency, the real property may be used in other federally sponsored projects or programs that have purposes consistent with those authorized for support by the Federal awarding agency. The non-Federal entity may not dispose of or encumber the title to real property without the prior consent of the awarding agency.

When real property is no longer needed for federally supported programs or projects, the non-Federal entity shall request disposition instructions. For purposes of this compliance requirement, the recipient makes the request to the Federal awarding agency. Subrecipients make requests through the recipient (pass-through entity) and do not make requests directly to the Federal awarding agency. The pass-through recipient is required to comply (ensure compliance) with the direction of the Federal awarding agency and the terms and conditions of its award. When real property is sold, sales procedures should provide for competition to the extent practicable and result in the highest possible return. If sold, non-Federal entities are normally required to remit to the awarding agency the Federal portion (based on the Federal participation in the project) of net sales proceeds. If the property is retained, the non-Federal entity shall normally compensate the awarding agency for the Federal portion of the current fair market value of the property. Disposition instructions may also provide for transfer of title in which case, the non-Federal entity is entitled to compensation for its percentage share of the current fair market value.

The requirements for real property are contained in the A-102 Common Rule (§____.31), OMB Circular A-110 (§____.32), Federal awarding agency regulations, and the terms and conditions of the award.

Audit Objectives

1. Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §____.500(c).
2. Determine whether the non-Federal entity maintains proper records for equipment and adequately safeguards and maintains equipment.
3. Determine whether disposition or encumbrance of any equipment or real property acquired under Federal awards is in accordance with Federal requirements and that the awarding agency was compensated for its share of any property sold or converted to non-Federal use.

Suggested Audit Procedures – Internal Control

1. Using the guidance provided in Part 6 – Internal Control, perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.
2. Plan the testing of internal control to support a low assessed level of control risk for equipment and real property management and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in §____.500(c)(3) of OMB Circular A-133, including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.
3. Consider the results of the testing of internal control in assessing the risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

Suggested Audit Procedures – Compliance

(Procedure 1 only applies to subrecipients of States that are local governments or Indian tribal governments. Procedure 2 only applies to States and to subrecipients of States that are local governments or Indian tribal governments.)

1. Obtain entity's policies and procedures for equipment management and ascertain if they comply with the State's policies and procedures.
2. Select a sample of equipment transactions and test for compliance with the State's policies and procedures for management and disposition of equipment.

(Procedures 3-4 only apply to institutions of higher education, hospitals, and other non-profit organizations, and Federal awards received directly from a Federal awarding agency by a local government or an Indian tribal government.)

3. Inventory Management of Equipment

- a. Inquire if a required physical inventory of equipment acquired under Federal awards was taken within the last two years. Test whether any differences between the physical inventory and equipment records were resolved.
- b. Identify equipment acquired under Federal awards during the audit period and trace selected purchases to the property records. Verify that the property records contain the following information about the equipment: description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, condition, and any ultimate disposition data including, the date of disposal and sales price or method used to determine current fair market value.
- c. Select a sample of equipment identified as acquired under Federal awards from the property records and physically inspect the equipment including whether the equipment is appropriately safeguarded and maintained.

4. Disposition of Equipment

- a. Determine the amount of equipment dispositions for the audit period and perform procedures to verify that dispositions were properly classified between equipment acquired under Federal awards and equipment otherwise acquired.
- b. For dispositions of equipment acquired under Federal awards, perform procedures to verify that the dispositions were properly reflected in the property records.
- c. For dispositions of equipment acquired under Federal awards with a current per-unit fair market value of \$5000 or more, test whether the awarding agency was reimbursed for the appropriate Federal share.

(Procedure 5 applies to States, local governments, Indian tribal governments and non-profit organizations regardless of whether funding is received as a recipient or subrecipient.)

5. Disposition of Real Property

- a. Determine real property dispositions for the audit period and ascertain such real property acquired with Federal awards.
- b. For dispositions of real property acquired under Federal awards, perform procedures to verify that the non-Federal entity followed the instructions of the awarding agency, which will normally require reimbursement to the awarding agency for the Federal portion of net sales or fair market value at the time of disposition, as applicable.

Note: The suggested audit procedures above for internal control and compliance testing may be accomplished using dual-purpose testing.

SUBPART C - POST-AWARD REQUIREMENTS

Property Standards

____.34 Equipment

(a) Title to equipment acquired by a recipient with Federal funds shall vest in the recipient, subject to conditions of this section.

(b) The recipient shall not use equipment acquired with Federal funds to provide services to non-Federal outside organizations for a fee that is less than private companies charge for equivalent services, unless specifically authorized by Federal statute, for as long as the Federal Government retains an interest in the equipment.

(c) The recipient shall use the equipment in the project or program for which it was acquired as long as needed, whether or not the project or program continues to be supported by Federal funds and shall not encumber the property without approval of the Federal awarding agency. When no longer needed for the original project or program, the recipient shall use the equipment in connection with its other federally-sponsored activities, in the following order of priority: (i) Activities sponsored by the Federal awarding agency which funded the original project, then (ii) activities sponsored by other Federal awarding agencies.

(d) During the time that equipment is used on the project or program for which it was acquired, the recipient shall make it available for use on other projects or programs if such other use will not interfere with the work on the project or program for which the equipment was originally acquired. First preference for such other use shall be given to other projects or programs sponsored by the Federal awarding agency that financed the equipment; second preference shall be given to projects or programs sponsored by other Federal awarding agencies. If the equipment is owned by the Federal Government, use on other activities not sponsored by the Federal Government shall be permissible if authorized by the Federal awarding agency. User charges shall be treated as program income.

(e) When acquiring replacement equipment, the recipient may use the equipment to be replaced as trade-in or sell the equipment and use the proceeds to offset the costs of the replacement equipment subject to the approval of the Federal awarding agency.

(f) The recipient's property management standards for equipment acquired with Federal funds and federally-owned equipment shall include all of the following.

(1) Equipment records shall be maintained accurately and shall include the following information.

(i) A description of the equipment.

(ii) Manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number.

(iii) Source of the equipment, including the award number.

(iv) Whether title vests in the recipient or the Federal Government.

(v) Acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost.

(vi) Information from which one can calculate the percentage of Federal participation in the cost of the equipment (not applicable to equipment furnished by the Federal Government).

(vii) Location and condition of the equipment and the date the information was reported.

(viii) Unit acquisition cost.

(ix) Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the Federal awarding agency for its share.

(2) Equipment owned by the Federal Government shall be identified to indicate Federal ownership.

(3) A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

(4) A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the Federal Government, the recipient shall promptly notify the Federal awarding agency.

Excerpt from the OEO Fiscal Guidance and Procedural Manual

Asset Rules and Regulations: *(formerly F03-05) (Revised 10/15/08)*

These procedures have been developed to assist the subgrantees in establishing proper procedures for obtaining effective internal control and record maintenance for assets (capitalized (fixed) and non-capitalized assets) purchased with OEO funds. The agency must be able to account for all property whether sold or traded, in compliance with the terms and conditions stipulated in the OEO Grant Agreement and (OMB A-110: Subpart C: Property Standards.)

1. Definitions:

- a. Fixed Asset: Tangible and intangible nonexpendable property having a useful life of more than one year (e.g. equipment, machinery, automobiles, furniture, real property) OMB Circular A-110: Subpart A: Definitions and, for OEO purposes, that has an acquisition cost equal to or greater than the lesser of \$5,000 or the subgrantee's capitalization policy threshold.
- b. Capital Expenditure: The acquisition cost of equipment or expenditures for capital improvements that materially increase the asset's value or useful life. OMB Circular A-122: Attachment B: Equipment and Other Capital Expenditures.
- c. Acquisition Cost: The net invoice price plus any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable. Taxes, transit insurance, freight and installation may be included or excluded in accordance with the subgrantee's capitalization policy. OMB Circular A-122: Attachment B: Equipment and Other Capital Expenditures.

2. Assets Management Standards:

Titles shall vest with the subgrantee on the condition the subgrantee uses the assets for the authorized purpose of the project as long as is needed. In compliance with the OEO grant agreement, subgrantee's management systems shall provide for effective control over and accountability for all

funds, property and other assets. The subgrantee shall adequately safeguard all such assets and assure they are used solely for authorized purposes.

Adequate written procedures must be in place to determine the reasonableness, allocability and allowability of costs and to guard against loss, damage and theft. Loss, damage and/or theft are to be reported immediately to the OEO (OEO notification applies to fixed assets only). OMB Circular A-110: Subpart C: Standard for financial management systems, and equipment.

3. Procurement:

Subgrantee shall establish procurement procedures in accordance with OEO procurement procedures as well as written standards for code of conduct for employees, officers and agents and standards that allow for competition in accordance with OMB Circular A-110: Subpart C: Procurement Standards.

4. Insurance Coverage: The subgrantee shall provide adequate insurance coverage for all assets acquired with Federal funds in compliance with OMB Circular A-110: Subpart C: Insurance Coverage, and as outlined in OEO procurement procedures. The subgrantee shall terminate insurance coverage once the agency has properly disposed of the insured assets in accordance with OEO surplus property and equipment disposal procedures.

5. Other Use: In accordance with OMB Circular A-110: Subpart C: Equipment a subgrantee may make all assets available for use to other projects that have purposes consistent with those authorized by the subgrantee. Preference shall be given first to other OEO sponsored projects/programs, then to other federally funded programs and lastly to non-federal programs/organizations whose purpose is consistent with those authorized by the subgrantee. Non-federal programs/organizations shall be charged a fee equal to that charged by private companies for similar services. These fees are to be charged as “other program income” and accounted for separately from OEO disbursed “grant revenue” on financial records. This revenue is to be returned and used solely for the OEO program for which the equipment/property was initially purchased.

6. Disposition: Procedures for Surplus Property and Equipment Disposal and OMB Circular A-110: Subpart C: Equipment. Be mindful that the subgrantee must obtain OEO’s written approval prior to the sale of or use of the assets for trade-in and prior to transferring asset(s) to other federally

sponsored programs (approval applies to fixed assets only). If the agency obtains OEO's authorization to sell, proper sales procedures shall be established that provide for competition to the extent practicable and result in the highest possible return. For all non-capitalized assets, the Agency may perform sales and disposals without OEO notification. Sales procedures for these assets shall also be established to provide for fair competition to the extent practicable and result in the highest possible return.

7. Asset / Inventory Records: The agency must maintain records to verify the existence and current utilization of all OEO-funded assets for all periods in which the asset is in use and to account for all assets sold or traded-in in compliance with the OEO grant agreement and OMB Circular A-110: Subpart C: Equipment. Records shall be retained in compliance with OMB Circular A-110: Subpart C: Retention access requirements for records. The subgrantee must ensure that asset records contain the following information: asset description, serial and model number, acquisition date and cost, depreciation method and useful life (for fixed assets), asset location, condition, and disposal date and revenue generated from said disposal, in compliance with OMB Circular A-110: Subpart C: Equipment. Assets are to be capitalized according to OMB Circular A-122: Attachment B: Equipment and other Capital Expenditures and the agency's capitalization policy. In accordance with OEO procedures, based in part on OMB Circular A-110: Subpart C: Equipment, the agency shall conduct an annual physical review of capitalized (fixed) assets and document asset locations and conditions as of the end of the agency fiscal year. OEO also realizes that there are some assets that are not capitalized and expended in the current period that the Agency must track and monitor (E.G. computers, printers, office furniture, and tools) that are not capitalizable in order to prevent waste and abuse of said assets. In order to establish a limit to classify these non-capitalized assets for presentation on the inventory listing of the Agency, OEO requires that all OEO assets with an acquisition value of \$500 or greater be included on the inventory listing unless the Agency's policies and procedures require a lower limit. The document shall be compared to the asset listing produced by the external auditor (at agency's fiscal year end) (for fixed assets only). Any differences shall be documented and explained in the agency's fixed asset reconciliation. OEO reserves the right to inspect non-capitalized assets on this listing to ensure the listing's accuracy. Differences could result from asset purchases or disposals transacted after the agency's fiscal year end. OEO audit will require the following supporting documents: copy of asset listing produced by external audit

- Copy of documented asset locations and conditions
- Asset reconciliation sheet
- Documents to support asset purchases
- Documents to support asset disposals

OEO requests that a copy of this listing be submitted annually with audit report of the external auditor. Submission of this report and the audit report should be made to the attention of the Senior Audit Manager.

8. Depreciation: Depreciation is a cost allocation that represents the physical deterioration of property due to age, wear or market conditions. Depreciation computation shall be based on the asset's acquisition cost (invoice price) and directly attributable costs necessary to bring the asset into working condition. Adequate depreciation records must be maintained indicating the amount of depreciation taken each period and the total amount of accumulated depreciation (OMB Circular A-122: Attachment B-11).

9. Assets Provided by OEO: Assets purchased and provided by OEO to subrecipients should be treated as property of the Agency; however, title to property is vested with the State. The Agency is responsible for all up keep and maintenance of property while in their possession. Should the Agency no longer need the equipment or wish to dispose of it, OEO requires that the asset be returned so that the OEO may dispose of the property as deemed necessary. All assets provided by OEO should be included on the inventory listing regardless of the value of the asset. OEO will audit the inventory sheets as they are submitted annually to ensure all OEO provided assets are included on the listing.

V = Vehicle
C = Computer Equipment
E = Equipment
O = Office Equip & Furn.
W = Works of Art
I = Intangible Assets
B = Building and improvements
N = Non-depreciable assets

This may be available, however for items like office furniture buildings this may not be filled in.

Most assets have a serial number. Those that do not should have some identifying number located on them.

This is the number assigned by the Agency to track assets. Generally used in place of a serial number.

The description should provide sufficient information to review so that what the item is is clearly understood.

Please provide the location and area at that location the asset should be in. The movement of assets should be monitored to ensure assets do not go missing.

Who does it belong to?

What funds paid for it?

The date the Agency received or acquired the asset.

What federal funds paid for it and the grantor has given a grant number this will be needed to determine what program year's funds were used to purchase said asset.

This is a breakdown of the % of funds used to pay for the asset.

This is an estimate that is based on the guidelines set by the Agency on the useful life of their assets.

The value that is estimated to be received when the asset is retired or sold.

The actual cost of the asset.

Some assets may have been modified which would increase their value or useful life. This section is to include such cost into the value of the asset.

This is the balance less any additions or retirements that would have occurred during the year.

Assets can be damaged, broken, retired, or sold. This section is to document these types of changes to the value of the asset.

If an asset is fully retired or sold the date this transaction occurs should be noted verifying the asset was removed.

Agency Name

Inventory of Assets

Date of Inventory

Item Number

Agency Identification #

Description

Asset Type

Serial Number

Model Number

Location of Asset

Title of Ownership

Condition

Acquisition Date

Funding Source

Grant # (if app.)

Funding %

Useful Life

Salvage Value

Acquisition Cost

Beginning Year Balance

Additions to Cost

Retirements to Cost

Ending Year Balance

Date of Retirement

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3	10100	Krendal Insulation Blower	E	182DFHGFG	X10	Main St. Storage Room	Agency	Excellent	6/7/2008	WAP	NONE	100%	5	0	\$7,000.00	0	\$7,000	0	\$7,000		

Handout 4